WAR AND PUBLIC FINANCE IN SOUTH AMERICA

In no region of the world is the public finance of foreign states of greater interest to our people than in Latin America. Aside from broader political considerations, their financial affairs are important for us because of private investments in their borders which are bound to become of increasing moment as we cease to be a debtor nation. The successful operation of the enterprises in which Americans are there interested bears, of course, an intimate relation to the local taxation problems.

As yet it is only in certain portions of Latin America, notably in Mexico, Cuba, and San Domingo, that American investments hold a prominent position. In the first country the figures compiled for our State Department show a total of American investments amounting to $1,057,770,000—an amount not only greater than that held by citizens of all European countries together, but an amount which exceeds the total of the national wealth held by the Mexicans themselves by more than $200,000,000.[1] In Cuba, also, since the Spanish American war there have been large investments of American capital, and since the protocol of 1905 important holdings have been acquired in San Domingo. In the other countries of Latin America the financial interests of United States citizens reach a smaller total, but are large and growing. Our position in the Caribbean is now fairly well assured, but in South American republics we have yet to win the important position in commerce and in general international affairs which our position in America gives us a right to expect.

The public finance of these countries affects our policy, not only because of the interest which every country must have in the foreign investment ventures of its citizens, but also because of two other considerations of a more general nature.

1. Especially in the circumstances created by the European war, we should be interested in the finances of our southern neighbors as an element determining the possibility of the extension of

[1] *Daily Consular and Trade Reports*, July 18, 1912.

our foreign trade. Not only, indeed, in war time is this a matter of interest, for South America is an important source of raw materials for our industries, and in lesser degree, of food supplies, in time of peace as well. In war time, however, conditions may arise which will affect the volume of foreign trade in an unusual way.

2. Broader still are our political interests in South America. If these countries prosper and their financial position becomes stable, our national policy of "America for Americans" will stand little chance of being called in question by European governments. That the investment of capital in foreign countries will increase as the opportunities for attractive profits in Europe grow less is indisputable. Money will flow to less developed regions, as it has already done to the extent of billions of dollars. If the governments of these countries are disturbed and property as a result is unprotected or subject to arbitrary treatment, the pressure brought upon European governments to interfere for the establishment of order and the creation of conditions under which the investments of their nationals may prosper will become more insistent. There will be in the future, as in the past, attempts to induce the local authorities to bring order out of chaos by exercising diplomatic pressure upon them, or, that failing, by forcible interference with their governments.

Under such conditions the corollary of the Monroe Doctrine that American governments be left free to develop as the local populations determine would become an increasingly difficult policy for our government to sustain. It might become one which stood for the rights of local self-government against the general interests of the civilization of the world. The alternative offered us might become the abandonment of the doctrine or the assertion of an increasing supervision of the less stable governments of America by the strongest American power.

Neither choice would be welcome. Already we have heavy responsibilities in the maintenance of order under the arrangements made with Cuba, Panama, and San Domingo. The much-discussed agreements with Nicaragua, Honduras, and Haiti, which have been given the support of leaders in both great parties in the United States, would still further increase our duties as a guarantor

of order. What Mexican affairs may bring forth in the same field is still a problem. That the people of the United States welcome any further extension of such undertakings as those we have already assumed in reference to Latin American governments would be argued by few. Any development which tends to make our southern neighbors better able to take care of themselves, or shows them now in that position, will be a source of satisfaction to us because of our long-standing belief that every people should have the right to work out its own destiny, and also because it accords with our preference as to our own international policy.

Looked at from this point of view, the European war may have reflex consequences for us of the highest importance. If through the financial crisis which it has brought in an especially acute form in less developed communities we should find ourselves under the necessity of adopting a forward international policy toward South America, we would face the event with regret. It is therefore with more than ordinary interest that the people of the United States should observe the effect of the European war upon the public finance of Latin American states.

In all South American states the European war of necessity brought in its train a financial crisis. Being uniformly debtor countries, whose rapid development is dependent upon ability to make loans abroad, their economic arrangements of necessity were disturbed because of the curtailment of credits. Public improvements were discontinued or cut down, local developments were handicapped, exports fell, and imports decreased because of inability of the population to buy as freely as before. In some cases, too, important export markets were closed, especially when these were in Germany and Austria, thus hindering the sale of that portion of goods which could still be moved. At the beginning of the conflict ocean transportation facilities were crippled, making access to all markets difficult, though this handicap was only temporary.

Confronted by these conditions the countries adopted various means to meet the crisis. Strenuous efforts were made to maintain the national credit by continuing at least the external debt service on the usual basis. Some states were hampered in these

efforts because they were already before the war going through an acute economic crisis; others were in so weak a financial position, or so distant from the course of world trade, that the war changed their position but little; still others, because of the peculiar character of their exports or unusual markets offered to them, were but slightly affected.

Among those republics struggling with a financial crisis even before the outbreak of the war were the three republics of the east coast: Brazil, Uruguay, and Argentina. The acute conditions in Brazil, even before the war, made it "obvious that without financial relief the government would be unable to meet its external obligations."[1] In 1910–12 southern Brazil had enjoyed exceptional prosperity. Though crops had been small, prices were unusually high and business was flourishing.[2] The money stringency had become especially acute after September, 1913, with the fall in price of the country's chief products—coffee and rubber. When the European war came, it paralyzed the import trade, thus cutting down revenues, stopping the extension of public works, and thus increasing the business inactivity, especially in the great commercial centers in Rio de Janeiro and São Paulo.[3] The total foreign trade during 1914 fell off $234,394,000, as compared to the year before. Two-thirds of the loss was in imports, one-third in exports. The former had fallen off $69,527,000 before August in 1914, owing to reduction of credit following the Balkan war, a condition accentuated in the last five months of the year by the hostilities in Europe. In the period from August to December, 1914, coffee exports shrank 39 per cent in quantity and 58 per cent in value, compared to 1913, though this item before the war was showing an increase in both quantity and value. The loss was due, of course, to the cutting off of the German and Austrian market.[4]

On March 4, 1915, the president issued a decree authorizing the minister of finance to issue bonds to the amount of 50,000,000

[1] *Forty-first Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, p. 12.

[2] *Daily Consular and Trade Reports*, December 12, 1914.

[3] *Ibid.*, September 12, 1914.

[4] *Commerce Reports*, March 26, 1915.

milreis gold ($27,300,000) at the office of the national treasury in London.[1] The efforts of the government to meet the financial problems had not by the first months of the year brought relief to the business world, and despite the recognized good faith of the government's efforts, bondholders considered their position to have become more precarious because of the war.

Like her neighbors to the north and south, Uruguay was already suffering from the results of a financial crisis when the war broke out. Since 1913 large construction projects had been at a standstill and foreign trade slack. At the end of 1913 heavy rains destroyed the harvests and 50 per cent of the planting for 1914. Cattle disease broke out in the interior and traffic with the back country was crippled. The war increased the hardships, though the fact that banks and business houses were already retrenching in their financial affairs lessened the shock. The country was, further, under the advantage of a non-fluctuating gold standard, in this holding a unique position in South America. The exports, moreover, are necessities of life little affected by ordinary trade disturbances.[2]

Still, with the outbreak of the war money became tight and unemployment increased. Moratoria of various lengths for certain sorts of local and private obligations were resorted to,[3] but no international moratorium was declared.[4] On August 8, 1914, specie payments were suspended by law for six months. The export of coal and gold was prohibited. A general moratorium on local obligations was declared, which was later extended by a law of December 24 until January 25, 1915.[5] The government was authorized to contract an internal debt of 35,000,000 pesos in the form of 7 per cent treasury notes, to be redeemed in some three years.[6] Later the amount authorized was raised to 40,000,000 pesos and the interest to 8 per cent.[7] A loan which was in process of flotation in Europe on the outbreak of the war was only partly raised, and a second

[1] *Ibid.*, April 3, 1915. [2] *Ibid.*, June 11, 1915.

[3] *Daily Consular and Trade Reports*, November 19, 1914.

[4] *Commerce Reports*, June 11, 1915. [5] *Ibid.*, April 3, 1915.

[6] *Daily Consular and Trade Reports*, November 26, 1914.

[7] *Ibid.*, November 26, 1914.

syndicate which undertook the task failed.[1] The effect on the country's income was serious. In the first eight months of 1914 the receipts of customs were $2,800,000 below those for the same period in 1913.[2] The receipts for the year were reported by the *Montevideo Times* as $12,876,038, compared to $17,259,716 in 1913.[3] At the end of 1914 the government was compelled to ask that the sinking fund payments on its interest-bearing loans be suspended to the end of 1915.[4] In February, 1915, it was reported that a law had been passed by which the convertibility of the bank notes of the republic was postponed until three months after the European war is terminated by peace treaty.[5]

Argentina, the most important commercially of the South American states, met the crisis with commendable determination. The country had gone through a boom period which came to a close about two years before the outbreak of the war. In the crisis which followed many prosperous lines of industry languished and even conservative business houses found their finances in straitened condition. Repeated crop failures added to the distress. The war came thus in the middle of a period of hard times which had run for two years, during which the banks had been liquidating their loans. Had it come while the republic was in the midst of the speculation period it would have produced a disastrous crash. Even under the existing conditions it did not fail to bring increased hardship. A moratorium for thirty days was at once declared for all debts falling due in the Argentine in August. It was extended to September 30, but then expired. It was later renewed in modified form, applying only to certain foreign countries. The exportation of gold was forbidden and the government extended its aid to private banks to tide them over the crisis. There was a wide demand for the issue of $10,000,000 in paper money without a gold guaranty, but this the executive refused to support.[6]

[1] *Daily Consular and Trade Reports*, November 26, 1914. See, also, *Commerce Reports* of April 3, 1915.

[2] *Daily Consular and Trade Reports*, October 30, 1914.

[3] *Commerce Reports*, March 6, 1915.

[4] *Forty-first Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, p. 19.

[5] *Commerce Reports*, February 12, 1915, authority reporting not stated.

[6] *Ibid.*, April 17, 1915, and June 12, 1915.

Shipping during August and the first part of September was paralyzed and all financial arrangements were upset.

The government adopted a conservative attitude, which the events proved was justified. Customs here as elsewhere fell off, the decrease totaling $32,000,000. At the beginning of 1915 they were reported as 60 per cent below normal.[1] To meet the situation a policy of rigid retrenchment was adopted, but during the latter half of 1914 the government took no step to increase revenue.[2] The negotiations for a European loan of $77,000,000 for public works were dropped.[3] Estimates of expenditures for public improvements, which in 1914 had called for an outlay of $300,000,000, were entered in the budget of 1915 for only $23,806,895.[4] Early in 1915 a cabinet meeting decided to reduce by 10 per cent all ordinary expenditures for the year except salaries and the public debt service.[5] The budget for 1915 included an additional tax on such items as alcoholic liquors and tobacco.[6]

Aided by these conservative measures, commerce gradually improved. In the two and a half months following the outbreak of the war, especially as transportation facilities resumed operations, much of the surplus of goods for export, which it was feared would have to be carried over, were marketed, and though imports, and therefore customs, remained low, foreign trade as a whole was in "fair" condition.[7] By the end of the year crop prospects had become good, there was plenty of work, and shipping was almost normal.[8] An issue of $15,000,000 in notes was put on the market by the government and promptly disposed of.[9] The National City Bank of New York made a loan to the government in December, 1914, at 6 per cent interest, the obligation being taken at 96½.[10]

[1] *Daily Consular and Trade Reports*, October 31, 1914, and *Commerce Reports*, January 4, 1915, and March 19, 1915. The foreign trade of the Argentine during 1914 compared to 1913 is reported as follows: imports, 1914, $262,304,273, 1913, $406,605,203; exports 1914, $337,030,246, 1913, $466,581,886. The United States was the only country which bought from the Argentine more in 1914 than in 1913 (*Commerce Reports*, April 16, 1915). Further detailed figures are found in *Commerce Reports* for June 12, 1915.

[2] *Commerce Reports*, July 12, 1915.

[3] *Ibid.*, March 19, 1915 and June 12, 1915.

[4] *Ibid.*, May 5, 1915.

[5] *Ibid.*, March 10, 1915.

[6] *Ibid.*, July 12, 1915.

[7] *Ibid.*, March 19, 1915.

[8] *Ibid.*, January 4, 1915.

[9] *Ibid.*, January 7, 1915. See also April 6, 1915.

[10] *Ibid.*, May 5, 1915, and June 12, 1915.

In May, 1915, an exterior loan of $50,000,000 gold was successfully floated with British and American bankers.[1] On the whole the war had raised the prices for Argentine exports. Gold deposited abroad in the Argentine legations furnished adequate basis for credit. In the opening months of 1915 ample funds were available for all foreign trade purposes. Local banks, both Argentine and European, were making attractive rates for loans, the charge being in some cases as low as 6½ per cent. In the first months of 1915 the railroad service showed weekly traffic equal to or greater than during the corresponding period in 1914. There is said also to be an unusual activity among Argentine manufacturing industries owing to the cutting off of the usual sources of supplies of manufactures by the war.[2] Commerce was decidedly on the upgrade and substantial increases in exports were shown in practically every important line in the first four months of the year, with the single exception of the trade in linseed.[3]

Of peculiar interest is the effect of the war upon the financial affairs of Chile. Probably in no other country of equal importance is the national prosperity so dependent upon a single branch of the mining industry—in this case, the production of nitrates—and probably no area, unless it be the Klondike, is more completely dependent upon imports for even its daily food than the nitrate regions of the provinces of Antofagasta and Tarapacá. Anything which disturbs this industry in Chile is sure, therefore, to raise acute problems, both national and local. Of this fact the outbreak of the European war furnished an apt illustration.

Chile depends on the export taxes on nitrate and iodine for its ready cash. Of customs, about 58 per cent comes from these items, reaching in a recent year $28,000,000, American gold. The import and export taxes from the two nitrate ports of Iquique and Antofagasta constitute 65 per cent of the government's customs revenues.[4] Of the nitrate exports, over three-fourths found their market in Europe. As an indirect result of the Balkan wars the demand slackened and the price had been steadily declining since

[1] *The Americas*, I, No. 11, August 1915.

[2] *Commerce Reports*, June 12, 1915.

[3] *Ibid.*, June 28, 1915.

[4] *Daily Consular and Trade Reports*, December 9, 1914.

the beginning of 1914.[1] The war of 1914 cut off shipments to Germany, Austria-Hungary, and Southeastern Europe, and the bottom dropped out of the market. The nitrate operations could no longer be worked at a profit and many of them closed down. There were 134 working on July 31, 1914, but only 69 on September 30, 61 on October 15, and 46 in December. The interruption of this and other sources of revenue confronted the government with an estimated deficit for 1915 of $13,486,182, American gold.

As in the Argentine, prompt measures were taken to meet the emergency. Steps were taken to impose special taxes on inheritances, property, and salaries, and increased rates on beer, alcohol, and tobacco. The number of public employees was decreased and salaries were cut in some cases 25, and even 50, per cent.[2]

Meanwhile the local problem in the nitrate provinces demanded attention, for the stagnation of the nitrate business meant the complete dependence of the population. Outside the towns the provinces of Antofagasta and Tarapacá are a rainless, barren desert. There is no vegetation and there are no settlements except at the nitrate stations, twenty to fifty miles apart. Food supplies have to be brought from great distances—cattle from the Argentine, sugar from Peru, grain, vegetables, and fruits from Southern Chile. Much of the flour comes from the United States.[3]

When the works closed down, the laborers had to be supported by public or private charity or taken out of the district. The government aided by supplying food and transportation.[4] Part of the workers were given emergency employment on the extensions to the longitudinal railway being constructed by the government. Under the strain of unusual expense, cutting down of customs, and the restriction of foreign credits, the Chilean paper peso, worth twenty cents gold in July, 1914, sank to fifteen cents in November.[5] The government advanced money to the nitrate plants which would keep open and thus diminish the number of dependents.

[1] *Ibid.*, September 25, 1914.

[2] *Commerce Reports*, January 5, 1915, and January 14, 1915.

[3] *Daily Consular and Trade Reports*, September 25, 1914.

[4] *Ibid.*, December 9, 1914, and *Commerce Reports*, January 14, 1915.

[5] *Commerce Reports*, January 14, 1915.

In all, \$6,400,000 is said to have been advanced, of which \$4,100,000 was still outstanding on March 9, 1915,[1] and \$2,880,000 on May 15.[2] But toward the end of the year conditions began to improve. The nitrate market was slowly recovering. The plants were gradually opened, but experienced difficulty in securing labor, since so many laborers had been shipped south during the crisis.[3] In June, 1915, banks were still reported to be restricting credit, but the government had apparently passed the point of greatest strain.

The other republics of South America are less important commercially, and for that reason of less moment to those interested in our present-day foreign trade; but their experience in the war illustrates some interesting phases of the interdependence of nations of the world in international affairs. From the point of view of our foreign policy the experience of these nations is of interest to us, because it is in them and the countries of the Caribbean region that political affairs are likely to be least stable.

The two inland republics, Bolivia and Paraguay, are to a degree outside the zone influenced by the war. Of the two, Bolivia fared by far the better. The first result of the war was that country merchants raised the prices of necessaries. The government promptly enacted a law forcing them to continue sales on the basis of the prices of July 31. This act appears to have tided over the period of greatest tension.[4] The government imported flour and sugar to be sold at cost. Imports fell off 50 per cent, and the annual budget was cut 30 per cent to meet the decrease in revenues.[5] A moratorium was declared, later extended to three months after January 1, 1915, then to three months from April 1, 1915, and to December 31, 1915.[6] But by the end of 1914 business was reported as fairly prosperous.[7]

In Paraguay it is difficult to ascertain what was the effect of the war upon public finance, for the government is so weak and so

[1] *Commerce Reports*, April 14, 1915.

[2] *Ibid.*, July 3, 1915.

[3] *Ibid.*, May 6, 1915.

[4] *Daily Consular and Trade Reports*, October 12, 1914.

[5] *Commerce Reports*, January 6, 1915.

[6] *Ibid.*, January 6, 1915, February 12, 1915, May 10, 1915, and July 7, 1915.

[7] *Daily Consular and Trade Reports*, December 2, 1914.

beset by internal disorders that it is impossible to distinguish the crises which were induced by the war from those to which the country would have been subject, even had peace been maintained. From a commercial point of view, Paraguay is a dependency of Argentina and had been suffering the hard times there prevalent. The currency is greatly depreciated; in fact, local metal coins are unknown except as curiosities. Very little metal was, in fact, ever coined.[1] Of paper there is plenty; how much is not definitely known, but there is at least $65,000,000 outstanding.[2] The paper peso was worth $0.06225 in 1914. The first effort to stabilize the currency was made in 1908, when a private bank was chartered, into whose charge were to be given the proceeds of a tax of one dollar on each hide exported. The government was to receive 10 per cent of the profits of the bank, and the hide tax proceeds were to be made a fund for the conversion of the paper money at the rate of 10 to 1.

But the war threw these plans to the winds. On October 24, 1914, an agreement was reported by which the government was to take over the accumulated conversion fund, amounting to $1,500,000.[3] Negotiations for a loan for £1,250,000, which were going on in London, were dropped.[4] The moratorium declared on the opening of the war was later extended to August 31, 1915.[5] An act for the issuance of $35,000,000 pesos additional paper was promulgated, which could not fail further to embarrass public finance.[6] Of the total, 25,000,000 pesos were to meet the obligations for current expenses in 1914, and the remainder to complete public works.[7] The generally dark financial prospects of Paraguay have not been bettered by the war. In fact, the conflict has probably only hastened the advance into a condition which was already becoming desperate.

Peru, Colombia, and Venezuela may be grouped together in the effect that the war had upon them, because, though none of

[1] *Commerce Reports*, January 26, 1915.

[2] *Ibid.*

[3] *Ibid.*, January 12, 1915.

[4] *Ibid.*, January 26, 1915.

[5] *Ibid.*, January 28, 1915.

[6] *Ibid.*, March 19, 1915.

[7] *Ibid.*, April 3, 1915. The government was able to meet the payments on its external debt due January 1, 1915 (*Forty-first Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, p. 22).

them is in a position of financial strength, they stood the shock fairly well. To some degree this was due to the fact that the governments made strenuous efforts to maintain their credit, but in greater degree it was due to the character of their chief export products, which, once the first crisis was passed, put them in a favored position.

In Peru a moratorium was declared at once, and later continued to June, 1915. Gold was driven out of circulation, though the Peruvian pound circulated in normal times on a par with the pound sterling. Business fell off 50 per cent.[1] The export trade in most lines fortunately did not depend on the closed European markets, and where it was so dependent, alternative markets offered themselves because of the very cutting off of European shipments. Of the eight principal exports of Peru, cotton alone suffered seriously for want of a market. Copper goes chiefly to the United States from Peru. It continued its usual course, and the mines were soon running at about the normal. Sugar usually went to Liverpool, but now that the German beet sugar shipments to Chile were shut off it was deflected southward. Some trade also was developed with Vancouver. Issues of paper money were resorted to by local banks, which caused the exchange rate to rise,[2] but for a country in the economic position of Peru the strain of the war was felt comparatively little.

In Colombia the war at first brought stagnation of trade, and large quantities of leaf tobacco, crude rubber, hides, nuts, and vegetable ivory, formerly sent to Germany, were unmarketable. Hotels and the larger stores avoided the fluctuations caused in the local currency by accepting payment in American gold.[3] The government made earnest efforts to maintain its credit and was able to meet the payments of interest falling due in the foreign debt service at the end of August, 1914,[4] and in January, 1915.

[1] *Commerce Reports*, February 9, 1915.

[2] *Ibid.*, January 6, 1915, and May 8, 1915. See also on Peru, *ibid.*, July 27, 1915, and August 28, 1915.

[3] *Daily Consular and Trade Reports*, September 19, 1914.

[4] *Ibid.*, November 21, 1914, quoting the *Financier and Bullionist* for September 3, 1914; see also for general discussion of Colombian finances, *Forty-first Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, p. 16.

By the end of the year, though business was still far from prosperous, it appeared that a readjustment of trade conditions had taken place which would at least postpone any financial difficulty which might arise on account of the war. By June 30, 1915, conditions were reported to be "returning to normal."[1]

Venezuela made efforts to avoid even the declaration of a moratorium. Toward the end of the year it was reported about to yield,[2] but except for delays due to the exchange market the government was able by April to announce that all its foreign obligations had been punctually met.[3] Export trade was depressed and importations much reduced.[4] The crop prospects were, however, good for both cacao and coffee,[5] and the position of Venezuela seemed about that of Colombia.[6]

Curiously, the war had less effect upon Ecuador than upon any other South American state. Torn by civil dissensions for almost a year before the beginning of the European conflict, and dependent for practically all of her manufactured products upon Europe and North America, it might be assumed that the interruption of trade and disturbance of credit would have prostrated her already hard-beset government. But no such development occurred. There were runs on banks at the beginning of the war and the government declared a moratorium of thirty days,[7] but by the end of the year the outlook was probably more favorable than anywhere else on the continent. Cocoa prices were high and going higher. The market for this, the country's chief export, had practically recovered from the war slump.[8] A report

[1] *Commerce Reports*, June 30, 1915.

[2] *Daily Consular and Trade Reports*, December 2, 1914.

[3] *Commerce Reports*, July 2, 1915.

[4] For figures of trade for 1913 and 1914, see *Commerce Reports*, July 7, 1915. The loss was especially great in commerce with Germany, France, and Austria.

[5] *Commerce Reports*, January 5, 1915.

[6] *Forty-first Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, p. 18.

[7] *Daily Consular and Trade Reports*, October 31, 1914.

[8] *Commerce Reports*, January 7, 1915. The price for arriba superior cacao in December was $9.00 per quintal. In January it was $10.00, and in February orders were placed at $12.00 (*Commerce Reports*, April 20, 1915).

despatched December 14 declared that Ecuador's trade was practically as good as ever. "Ecuador has suffered little or none by the war and in some instances at least it has benefited."[1] Later the Guayaquil Chamber of Commerce reported, "None of our export products is held up for lack of market, for they all have a ready sale."[2] Exchange rates were favorable and banking conditions approaching normal.[3] Curious indeed were the tricks played foreign trade by the war, but most curious this turn which made the weakest government on the continent—with the possible exception of Paraguay—the one which felt the shock to the financial arrangements of the world least of any state in South America.

Taken all in all, so far the performance of the South American states under the financial strain put upon them by the war has been reason for congratulation. The group, Brazil, Argentina, and Chile—with which Uruguay should be classed, not only because of its geographical position, but also because of the stability of its government—have put their shoulders to the wheel and are evidently determined that they will sustain their foreign credit even at the cost of curtailment of public improvements, and in the case of Chile of heavy relief expenses. The task may be difficult, especially if the war is of long duration, and the outcome in the case of Brazil may appear to many doubtful, but there can be no question of the good faith of the efforts undertaken.

The inland republics—Bolivia and Paraguay—are not so closely touched by the consequences of the war as those relying to a greater extent on foreign exchanges. Bolivia seems to be weathering the storm successfully. Paraguay, suffering from endemic revolutions, unable to cope with even disturbances of minor character because of lack of communications, and laboring under a debased paper currency of rapidly fluctuating value, enjoys no pleasant prospects. The war affects her but secondarily, but

[1] *Commerce Reports*, January 18, 1915.

[2] *Ibid.*, May 20, 1915.

[3] The interest and sinking-fund payments for the external debt due January 1, 1915, were not, however, paid, and the foreign bondholders report that the government should probably be considered as "defaulting" (*Forty-first Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1915, pp. 20 ff.).

anything which adds to the load she is already carrying may prove calamitous.

Of the four remaining independent states none have strong governments, but all appear to be making headway, due both to the praiseworthy efforts of their governments to meet the situation and to the fortunate position which their chief products hold in the world's market. The sugar of Peru enjoys an unusual access to profitable outlets, and the cocoa products of Venezuela, and especially Ecuador, appear to be enjoying a demand which at least approaches that in times of peace. The coffee market in Venezuela and Colombia appears to be in a less favorable condition.

Looked at from the point of view of the United States, these favorable local conditions, whether brought about by the efforts of the governments or the accidental character of the local products, are welcome indeed. In this time when European states are pouring out their capital in the most destructive war of history, it is gratifying to us to see the anxiety and ability of the states to the south to maintain their credit even at great temporary inconvenience. There has been among them no general willingness to use the war as an excuse to escape just obligations or to load their payment on posterity. Had the conflict resulted in a general defaulting on the debt services, it would presage bad local effects. Capital would hereafter be more cautious in making loans and the proper development of the continent would be checked. Such defaulting would have in addition an international effect peculiarly unfortunate for us. The creditors would urge their governments to bring pressure upon the defaulting states to force payment. Questions of the degree to which such pressure could be availed of before becoming a policy offending the Monroe Doctrine would be brought before our state department. In short, a general inability or indisposition of the South American countries to stand the financial strain incident to the war would put us into a very unwelcome diplomatic position. Not only are the South American states to be congratulated, therefore, because the war has not affected them more adversely, but we are to be congratulated because their performance gives promise that they will make

great effort to prevent their public debts from becoming international questions. Whether these efforts will in the long run prove sufficient may in some cases be doubtful, but the evident strength of the southern group and the general determination to safeguard the national credit are facts of decided value to us. These are advantages which, though less tangible, may prove much more real to us as a nation than any of the trade profits incident to the war which have so held the attention of Americans anxious to increase our overseas commerce.

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